

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name St. Clair River Sewer and Water Authority	County St. Clair
Fiscal Year End December 31, 2006		Opinion Date May 25, 2007		Date Audit Report Submitted to State June 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

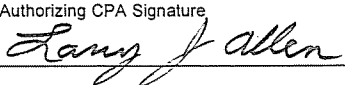
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829		
Street Address 1979 Holland Avenue		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR RIVER SEWER AND WATER AUTHORITY

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements –	
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Financial Information –	
Sewer Department –	
Statement of Net Assets	15
Statement of Revenues, Expenses and Changes In Net Assets	16
Statement of Changes in Cash Flow	17
Schedule of Charges for Sewer Services to Charter Townships (Unaudited)	18
Water Department –	
Statement of Net Assets	19
Statement of Revenues, Expenses and Changes In Net Assets	20
Statement of Changes in Cash Flow	21
Schedule of Charges for Water Services to Charter Townships (Unaudited)	22
Schedule of Charges for Operation and Maintenance of Water Distribution Lines (Unaudited)	23

INDEPENDENT AUDITOR'S REPORT

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the accompanying component unit financial statements of the St. Clair River Sewer and Water Authority as of December 31, 2006 and 2005 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair River Sewer and Water Authority as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 25, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Authority. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, except for the portion marked "Unaudited" on which we express no opinion has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

May 25, 2007

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of the St. Clair River Sewer and Water Authority's financial statements provides an overview of the Authority's financial activities for the years ended December 31, 2006 and 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary financial information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities. The Net Asset balance is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows, which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. Supplementary information and tables are also provided for information purposes.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

Fund Financial Statements

The Authority has only one fund, the Operating Fund, in which all of the Authority's sewer and water activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on the accrual basis.

FINANCIAL OVERVIEW

The Authority had net assets of \$516,148 at December 31, 2006. This is a decrease of \$52,648 from 2005. The table below summarizes the net assets at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	<u>\$ 792,700</u>	<u>\$ 821,200</u>
Liabilities		
Current liabilities	112,975	93,254
Long-term liabilities	<u>163,577</u>	<u>159,150</u>
Total liabilities	<u>276,552</u>	<u>252,404</u>
Net Assets		
Restricted for equipment replacement	<u>\$ 516,148</u>	<u>\$ 568,796</u>

Since the operations of the Authority through agreement with the Charter Township's, is to break even, the decrease was directly related to the equipment replacement costs incurred, net of service fees for replacement and interest earned during the year of \$52,648.

The following table summarizes the changes in net assets for 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 1,139,182	\$ 1,060,290
Operating Expenses	<u>1,139,182</u>	<u>1,060,290</u>
Operating Income	-	-
Non Operating Revenue (Expenses)	(<u>52,648</u>)	<u>96,626</u>
Change in Net Assets	<u>\$ (52,648)</u>	<u>\$ 96,626</u>

The operating expenses increased from 2005 in the amount of \$78,892 or 7.4% of total 2005 operating expenses. Of the increase, \$70,789 was related to water operations while sewer disposal operations had an increase in expenses of \$8,103. The major increase in expenditures for the water system was the result of increased wages and related fringes for plant operations.

CAPITAL ASSETS

The St. Clair River Sewer and Water Authority was established by the Charter Townships of China and East China to operate the sewer and water plants that provide services to both Charter Townships. The original sewer plant is owned by the Charter Township of East China, and recorded on the records of the Charter Township of East China. The water plant is owned by both Charter Townships (East China and China). The water plant is recorded on the respective Charter Township records based on percentage of ownership.

LONG-TERM DEBT

The long-term debt the Authority consists of an advance from the Charter Township of East China's sewer funds of \$90,318. The amount is to be repaid as funding becomes available. The long-term debt also includes \$73,259 of accumulated sick leave that has vested and is available to the employees of the Authority.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Next years budget has been increased to reflect the inflation and to cover anticipated maintenance. Since billing customers is the responsibility of the Charter Townships, the Authority is again assured of revenues from each Charter Township, based on flow percentage of total. An effort has been made to maintain costs so as not to have excessive increase in costs to the Charter Townships. A continuous review is made of efficiency of operations and the management of water system leakage and sewer system infiltration.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the St. Clair River Sewer and Water Authority, 5111 River Road, East China, Michigan 48054.

BASIC FINANCIAL STATEMENTS

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash	\$ 9,318	\$ 416,366
Investments	621,324	256,190
Interest receivable	850	671
Due from Charter Township of China	26,965	22,548
Due from Charter Township of East China	105,474	95,988
Prepaid expenses	<u>28,769</u>	<u>29,437</u>
	<u>\$ 792,700</u>	<u>\$ 821,200</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 30,896	\$ 15,943
Accrued salaries and wages	11,255	8,501
Accrued payroll taxes	861	650
Accrued vacation	13,963	12,160
Deposits payable	<u>56,000</u>	<u>56,000</u>
	<u>112,975</u>	<u>93,254</u>
Long-Term Liabilities:		
Advance from East China sewer fund	90,318	90,318
Accrued sick leave	<u>73,259</u>	<u>68,832</u>
	<u>163,577</u>	<u>159,150</u>
Total Liabilities	276,552	252,404
Net Assets:		
Restricted - Equipment Replacement	<u>516,148</u>	<u>568,796</u>
	<u>\$ 792,700</u>	<u>\$ 821,200</u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 988,265	\$ 912,401
Charter Township of China	150,917	147,889
	<u>1,139,182</u>	<u>1,060,290</u>
Operating Expenses:		
Salaries and wages	528,479	508,079
Fringe benefits	235,904	201,451
Administrative expense	6,500	6,500
Office supplies	4,395	7,490
Operating supplies	71,576	54,491
Utilities	136,199	123,394
Professional service	17,521	4,700
Insurance	40,853	22,107
Sludge removal	949	28,988
Repairs and maintenance	66,879	71,710
Equipment rental	17,490	20,108
Other	12,437	11,272
	<u>1,139,182</u>	<u>1,060,290</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	93,000	93,000
Interest earned-equipment replacement reserve	29,397	13,465
Interest earned-water operating	-	5,507
Sewer plant improvements transferred to East China plant	(175,045)	(15,346)
	<u>(52,648)</u>	<u>96,626</u>
Change in net assets	(52,648)	96,626
Net assets at beginning of year	<u>568,796</u>	<u>472,170</u>
Net assets at end of year	<u><u>\$ 516,148</u></u>	<u><u>\$ 568,796</u></u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 1,175,306	\$ 1,057,122
Payments to suppliers	(409,384)	(421,556)
Payments to employees	(519,284)	(503,475)
Payments for employee benefits	(235,904)	(201,451)
Net Cash Provided (Used) By Operating Activities	<u>10,734</u>	<u>(69,360)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(175,045)	(15,346)
Service fees for equipment replacement	93,000	93,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(82,045)</u>	<u>77,654</u>
Cash Flows From Investing Activities:		
Net changes in investments	(365,134)	379,956
Interest earned	29,397	18,972
Net Cash Provided (Used) by Investing Activities	<u>(335,737)</u>	<u>398,928</u>
Net Increase (Decrease) in cash	(407,048)	407,222
Cash at beginning of year	<u>416,366</u>	<u>9,144</u>
Cash at end of year	<u><u>\$ 9,318</u></u>	<u><u>\$ 416,366</u></u>
Reconciliation of Operating Income to Net Cash		
Used by Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income		
to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	-	-
Interest receivable	161	(14,407)
Prepaid expenses	328	(15,153)
Due from Charter Townships	(14,621)	(39,945)
Accounts payable	14,953	(5,261)
Accrued liabilities	9,195	4,604
Due to Charter Townships	<u>718</u>	<u>802</u>
Net Cash Used (Provided) by Operating Activities	<u><u>\$ 10,734</u></u>	<u><u>\$(69,360)</u></u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

The accounting methods and procedures adopted by the St. Clair River Sewer and Water Authority conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The St. Clair River Sewer and Water Authority was created by the Charter Townships of China and East China, both located in the County of St. Clair, Michigan. The Authority is operated under a joint five (5) member Board appointed by the Charter Township's Boards, the purpose of which is to operate and maintain a sanitary sewage treatment plant and water plant in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The Authority has contracted with the Charter Township of East China to perform the administration, operations, and maintenance of the facilities.

B. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The St. Clair River Sewer and Water Authority is accounted for in two business-type departments.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

D. Assets, Liabilities and Net Assets –

Cash and Cash Equivalent –

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

Deposits –

The deposits represent money deposited by the Charter Townships of China and East China to provide cash for the operations of the sewer and water systems.

Receivables –

The Authority bills the two Charter Townships based on the percentage of sewer and water usage. It is the responsibility of the Charter Townships to bill individual customers. Based on a reconciliation of estimate payments to final results, the Charter Townships either owe or are owed an amount at the end of the year. These amounts are reported as due from or to the Charter Townships.

Capital Assets –

The St. Clair River Sewer and Water Authority was established to administer and operate the Sewer and Water Utility Plants servicing the Charter Townships of China and East China. No capital assets are owned by the Authority. Ownership is retained by the Charter Townships and recorded in the Charter Township's records.

Estimates –

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

NOTE 2 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investment –

The Charter Township of East China's investment policy on behalf of the Authority and Act 20 PA 1943, as amended, authorizes the deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Act 20 PA 1943 as amended authorizes the Charter Township of East China on behalf of the Authority to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

The Charter Township of East China's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Charter Township of East China's Treasurer is responsible for the investment program.

Deposits –

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Authority's deposits consist of checking accounts. At December 31, 2006 and 2005, the carrying amounts and bank balance of the Authority's deposits are \$9,318 and \$416,366, respectively.

Custodial Credit Risk – Deposits, is the risk that in the event of a bank failure, the Authority's deposits or investments may not be returned.

As of December 31, 2006, the bank balance of the Authority's deposits was \$9,318 all of which was FDIC insured.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

NOTE 2 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

As of December 31, 2006, The Chartered Township of East China (Township), on behalf of the Authority had invested the funds listed as investments within the general investment pool of the Township which consisted of investment trust funds, money market accounts and certificates of deposits. Information regarding these investments and the associated risks can be obtained through the Township's Financial Report for the year ended December 31, 2006. The investment policy of the Authority and Township share investment requirements as well as the hierarchy of risk aversion.

The investments reported in the financial statements contain a combination of money market and investment trust accounts which maintain characteristics of demand deposit accounts in that the Authority may deposit additional cash at any time and effectively may withdraw funds at any time without penalty. The reason for reporting these accounts as investments is that it is the intent of the Authority/Township to not make withdrawals from the investment trust and money market accounts since these funds are part of the Authority/Townships pooled investment program.

NOTE 3 - SEWAGE DISPOSAL AGREEMENT:

The Charter Township of East China owns the sewage disposal plant. However, along with the Charter Township of China has contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance, and administration of the sewage disposal plant. The total cost of the operations and administration of the sewage disposal plant is billed to the two Charter Townships based on reserved capacity and flow applicable to each Charter Township after reimbursement from the Authority water fund.

NOTE 4 - WATER FILTRATION AGREEMENT:

In 1999, the Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a water filtration plant. Upon completion the Chartered Township's entered into a lease purchase agreement with the County. The Charter Townships have contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance and administration of the plant and related distribution lines. The total cost of operations, maintenance and administration of the water filtration system is billed to the Charter Townships based on water flow and distribution line benefit.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

NOTE 5 - DUE FROM CHARTER TOWNSHIPS:

The following is a schedule of the amount due from the Charter Townships at December 31, 2006:

	<u>Departments</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Charter Township of China			
December 2006 billing	\$ 6,548	\$ 5,500	\$ 12,048
Annual settlement	<u>5,613</u>	<u>9,304</u>	<u>14,917</u>
	<u>\$ 12,161</u>	<u>\$ 14,804</u>	<u>\$ 26,965</u>
Charter Township of East China			
Annual settlement	\$ 26,580	\$ (39,989)	\$ (13,409)
Other	<u>-</u>	<u>118,883</u>	<u>118,883</u>
	<u>\$ 26,580</u>	<u>\$ 78,894</u>	<u>\$105,474</u>

NOTE 6 - DEPOSITS FOR OPERATIONS:

The deposit balance represents money deposited by the Charter Townships of East China and China to provide cash for operations of the sewer and water system. The deposit balance per Charter Township is as follows:

<u>Sewer Department</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Charter Township of East China	\$ 32,900	\$ 32,900
Charter Township of China	<u>2,100</u>	<u>2,100</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>
 <u>Water Department</u>		
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Charter Township of East China	\$ 16,000	\$ 16,000
Charter Township of China	<u>5,000</u>	<u>5,000</u>
	<u>\$ 21,000</u>	<u>\$ 21,000</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 7 - RESTRICTED FOR EQUIPMENT REPLACEMENT:

The Charter Townships have elected to have a portion of the fees charged to them to be restricted for equipment replacement. The following is a summary of the change in the restricted balances for the year ended December 31, 2006:

	<u>Sewer Department</u>	<u>Water Department</u>
Restricted balance at December 31, 2005	\$ 460,859	\$ 107,937
Service fees for equipment replacement	48,000	45,000
Interest earned	<u>20,213</u>	<u>9,184</u>
	529,072	162,121
Sewer plant improvements transferred to East China plant	(<u>161,314</u>)	(<u>13,731</u>)
Restricted balance at December 31, 2006	<u>\$ 367,758</u>	<u>\$ 148,390</u>

SUPPLEMENTARY FINANCIAL INFORMATION

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash	\$ 4,851	\$ 233,054
Investments	417,474	256,190
Interest receivable	850	671
Due from -		
Charter Township of China	12,161	11,533
Charter Township of East China	26,580	32,387
Prepaid Expenses	<u>14,408</u>	<u>14,466</u>
	<u>\$ 476,324</u>	<u>\$ 548,301</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 23,525	\$ 8,559
Accrued salaries and wages	5,746	4,342
Accrued payroll taxes	439	332
Accrued vacation	9,666	9,078
Deposits payable	35,000	35,000
Due to water fund	<u>13,107</u>	<u>12,389</u>
	<u>87,483</u>	<u>69,700</u>
Long-Term Liabilities:		
Accrued sick leave	<u>21,083</u>	<u>17,742</u>
Total Liabilities	108,566	87,442
Net Assets:		
Restricted - Equipment replacement	<u>367,758</u>	<u>460,859</u>
	<u>\$ 476,324</u>	<u>\$ 548,301</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 463,883	\$ 397,536
Charter Township of China	80,469	75,390
Authority Water Fund	50,027	50,664
Total Operating Revenues	<u>594,379</u>	<u>523,590</u>
Operating Expenses:		
Salaries and wages	268,499	231,200
Fringe benefits	127,540	105,122
Administrative expense	6,500	6,500
Office supplies	1,278	3,244
Operating supplies	47,998	30,190
Utilities	77,594	62,947
Professional service	14,680	2,350
Insurance	18,578	10,616
Sludge removal	949	28,988
Repairs and maintenance	22,443	33,683
Equipment rental	1,698	1,422
Other	6,622	7,328
Total Operating Expenses	<u>594,379</u>	<u>523,590</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	48,000	48,000
Interest earned-equipment replacement	20,213	13,465
Equipment and plant improvements transferred to Charter Township	(161,314)	(15,346)
Total Non-Operating Revenues (Expenses)	<u>(93,101)</u>	<u>46,119</u>
Change in net assets	(93,101)	46,119
Net assets at beginning of year	<u>460,859</u>	<u>414,740</u>
Net assets at end of year	<u>\$ 367,758</u>	<u>\$ 460,859</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT****STATEMENT OF CHANGES IN CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 599,558	\$ 519,325
Receipts from water fund	718	802
Payments to suppliers	(183,495)	(187,561)
Payments to employees	(263,059)	(243,370)
Payments for employee benefits	(127,540)	(105,122)
Net Cash Provided (Used) By Operating Activities	<u>26,182</u>	<u>(15,926)</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	(161,314)	(15,346)
Service fees for equipment replacement	48,000	48,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(113,314)</u>	<u>32,654</u>
Cash Flows From Investing Activities:		
Net changes in investments	(161,284)	197,357
Interest earned	20,213	13,465
Net Cash Provided (Used) by Investing Activities	<u>(141,071)</u>	<u>210,822</u>
Net Increase (Decrease) in Cash	(228,203)	227,550
Cash at beginning of year	<u>233,054</u>	<u>5,504</u>
Cash at end of year	<u>\$ 4,851</u>	<u>\$ 233,054</u>
Reconciliation of Operating Income to Net Cash Used By Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities -		
Changes in assets and liabilities -		
Due from Charter Townships	5,179	10,424
Interest Receivable and other	(121)	(14,689)
Accounts payables	14,966	(293)
Accrued liabilities	5,440	(12,170)
Due to other fund	718	802
Due to Charter Townships	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 26,182</u>	<u>\$ (15,926)</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SCHEDULE OF CHARGES FOR SEWER SERVICES TO CHARTER TOWNSHIPS

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2006

FLOW APPORTIONMENT OF SEWER NET OPERATING EXPENSES

	Annual Sewer Flow (A)		
	Total	Residential and Commercial	Township Percentage
Charter Township Of China:			
Belle River Edison Plant (metered sewer)	2,305 gal		
Continental Coating (metered sewer)	1,081	1,081 gal	
Residential and Commercial (B)	15,669	15,669	
	19,055 gal	16,750 gal	7.75%
Water Plant			
Reject water into plant	21,846 gal		
Charter Township of East China:			
St. Clair Edison Plant (metered sewer)	19,219 gal		
Residential and Commercial (balance of flow (C))	199,387	199,387 gal	92.25%
	218,606 gal		
Total Metered Flow at Sewer Plant	259,507 gal	216,137 gal	100.00%

Notes:

- (A) Flow is in 1,000 gallons.
- (B) Based on water flow of 11,346 gallons increased by 38.1% for seepage.
- (C) Represents balance after Charter Township of China, St. Clair Edison Plant and Water Plant flows are subtracted from total metered flow at Sewer Plant.

DOLLAR APPORTIONMENT

	Total	Charter Township of China	Charter Township of East China
Total Expenses to be Apportioned:			
Operation and maintenance expenses	\$ 594,380		
Add - restrictions for equipment replacement	48,000		
Less - sewer usage by water plant	(50,027)		
Total Expenses to be Apportioned	\$ 592,353		
Township Portion of Expenditures:			
Total expenditures to be apportioned	\$ 592,353		
Less - charges for sewer services to Edison plants based on reserved capacity, not flow, (77,927,500 gal x \$2.89/thousand gallons)	220,814	\$ 55,397	\$ 165,417
Balance apportioned to Townships based on 7.75% and 92.25%, respectively	371,539	28,792	342,747
Total Sewer Service Charges	592,353	84,189	508,164
Less - 2006 billings	(560,160)	(78,576)	(481,584)
Amount due from Charter Townships	\$ 32,193	\$ 5,613	\$ 26,580

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****WATER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 4,467	\$ 183,312
Investments	203,850	-
Due from sewer fund	13,107	12,389
Due from -		
Charter Township of China	14,804	11,015
Charter Township of East China	78,894	63,601
Prepaid expenses	<u>14,361</u>	<u>14,971</u>
	<u>\$ 329,483</u>	<u>\$ 285,288</u>
 LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,371	\$ 7,384
Accrued salaries and wages	5,509	4,159
Accrued Payroll Taxes	422	318
Accrued vacation	4,297	3,082
Deposits payable	<u>21,000</u>	<u>21,000</u>
	<u>38,599</u>	<u>35,943</u>
 Long-Term Liabilities:		
Advance from East China sewer fund	90,318	90,318
Accrued sick leave payable	<u>52,176</u>	<u>51,090</u>
	<u>142,494</u>	<u>141,408</u>
 Total Liabilities	181,093	177,351
 Net Assets:		
Restricted - Equipment Replacement	<u>148,390</u>	<u>107,937</u>
	<u>\$ 329,483</u>	<u>\$ 285,288</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****WATER DEPARTMENT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIODS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
Operating Revenues:		
Charges for services (water usage) -		
Charter Township of East China	\$ 478,100	\$ 458,383
Charter Township of China	57,707	56,949
	<u>535,807</u>	<u>515,332</u>
Charges for services (water distribution lines) -		
Charter Township of East China	46,282	56,482
Charter Township of China	12,741	15,550
	<u>59,023</u>	<u>72,032</u>
Total Operating Revenue	<u>594,830</u>	<u>587,364</u>
Operating Expenses:		
Plant -		
Salaries and wages	231,098	244,429
Fringe benefits	106,154	93,842
Office supplies	3,117	4,246
Operating supplies	23,008	19,520
Professional services	2,841	2,350
Utilities	52,622	54,225
Insurance	19,375	10,130
Repairs and maintenance	40,943	31,429
Equipment rental	1,697	1,231
Sewer Plant processing of flow back	50,027	50,664
Other	4,925	3,266
	<u>535,807</u>	<u>515,332</u>
Distribution Lines -		
Salaries and wages	28,882	32,450
Fringe benefits	2,210	2,487
Supplies	570	4,781
Utilities	5,983	6,222
Insurance	2,900	1,361
Repairs and maintenance	3,493	6,598
Equipment rental	14,095	17,455
Other	890	678
	<u>59,023</u>	<u>72,032</u>
Total Operating Expenses	<u>594,830</u>	<u>587,364</u>
Total Operating Income	<u>-</u>	<u>-</u>
Non-Operating Revenues:		
Service fees for equipment replacement	45,000	45,000
Interest earned- equipment replacement	9,184	5,507
Plant improvement transfer	(13,731)	-
Total Non-Operating Revenues	<u>40,453</u>	<u>50,507</u>
Change in net assets	40,453	50,507
Net assets at beginning of year	<u>107,937</u>	<u>57,430</u>
Net assets at end of year	<u>\$ 148,390</u>	<u>\$ 107,937</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

WATER DEPARTMENT
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 575,748	\$ 537,797
Receipts from sewer fund	(718)	(802)
Payments to suppliers	(225,889)	(233,995)
Payments to employees	(256,225)	(260,105)
Payments for employee benefits	(108,364)	(96,329)
Net Cash Used By Operating Activities	<u>(15,448)</u>	<u>(53,434)</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	(13,731)	-
Service fee for equipment replacement	45,000	45,000
Net Cash Provided by Capital and Related Financing Activities	<u>31,269</u>	<u>45,000</u>
Cash Flows From Investing Activities:		
Net change in investment	(203,850)	182,599
Interest earned	9,184	5,507
Net Cash Provided (Used) by Investing Activities	<u>(194,666)</u>	<u>188,106</u>
Net Increase (Decrease) in Cash	(178,845)	179,672
Cash at beginning of year	<u>183,312</u>	<u>3,640</u>
Cash at end of year	<u><u>\$ 4,467</u></u>	<u><u>\$ 183,312</u></u>
Reconciliation of Operating Income to Net Cash		
Used By Operating Activities:		
Operating loss for the year	\$ -	\$ -
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Changes in assets and liabilities -		
Prepaid expenses	610	(14,871)
Due from Charter Township of East China	(15,293)	(40,398)
Due from Charter Township of China	(3,789)	(9,169)
Due from other fund	(718)	(802)
Accounts payable	(13)	(4,968)
Accrued liabilities	3,755	16,774
Due to Charter Township of East China	-	-
Net Cash Used by Operating Activities	<u><u>\$(15,448)</u></u>	<u><u>\$(53,434)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

SCHEDULE OF CHARGES FOR WATER SERVICES TO CHARTER TOWNSHIPS
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2006

FLOW APPORTIONMENT OF WATER PLANT NET OPERATING EXPENSES

		<u>Water Flow</u>	<u>Township Percentage</u>
Total water flow from plant		163,460 gal	100.0%
Less flow to:			
China Township residential and commercial customers	13,513 gal		
Belle River Edison Plant	<u>4,096</u>	<u>17,609</u>	<u>10.8%</u>
Water flow for Charter Township of East China		<u><u>145,851</u></u> gal	<u><u>89.2%</u></u>

DOLLAR APPORTIONMENT

	<u>Total</u>	<u>Charter Township of China</u>	<u>Charter Township of East China</u>
Total Expenses to be Apportioned:			
Total Expenses to be Apportioned	\$ 535,807		
Add restricted for replacement-			
modules/ fibers	25,000		
other equipment	<u>20,000</u>		
	580,807	\$ 62,569	\$ 518,238
Less - 2006 billings	<u>(583,890)</u>	<u>(47,295)</u>	<u>(536,595)</u>
Due from (to) Charter Townships	<u><u>\$ (3,083)</u></u>	<u><u>\$ 15,274</u></u>	<u><u>\$ (18,357)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR OPERATION AND MAINTENANCE
OF WATER DISTRIBUTION LINES
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2006**

MILEAGE APPORTIONMENT BASED ON SYSTEM BENEFIT

	Operations and Maintenance Distribution				
	China		East China		
	Number of Miles	Percentage of total	Number of Miles	Percentage of total	Number of Miles
Charter Township of China:					
Joint Transmission	3.0	80%	2.4	20%	0.6
China Only	2.5	100%	2.5	0%	0.0
	<u>5.5</u>		<u>4.9</u>		<u>0.6</u>
Charter Township of East China:					
Joint Transmission	9.5	20%	1.9	80%	7.6
East China Only	16.5		0.0	100%	16.5
	<u>26.0</u>		<u>1.9</u>		<u>24.1</u>
Totals	<u>31.5 miles</u>		<u>6.8 miles</u>		<u>24.7 miles</u>

Charter Township of China	6.8 miles	21.6%
Charter Township of East China	24.7 miles	78.4%
	<u>31.5 miles</u>	<u>100.0%</u>

SUMMARY DOLLAR APPORTIONMENT

		China 21.6%	East China 78.4%
Total Expense	\$ 59,023	\$ 12,741	\$ 46,282
Paid in 2006	<u>86,625</u>	<u>18,711</u>	<u>67,914</u>
Due from (to) Charter Townships	<u>\$(27,602)</u>	<u>\$(5,970)</u>	<u>\$(21,632)</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the financial statements of the St. Clair River Sewer and Water Authority as of and for the year ended December 31, 2006, and have issued our report thereon, dated May 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the St. Clair River Sewer and Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the St. Clair River Sewer and Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of East China's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Authority on an ongoing basis. Although the internal financial information is sufficient to operate the Authority, it is not presented in accordance with generally accepted accounting principles. The Authority contracts with us, the auditors, to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles, since it does not have staff that currently have the expertise.

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviations from generally accepted accounting principles and the Authority would not be in a position to detect them.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the St. Clair River Sewer and Water Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Clair River Sewer and Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management and the Authority Board, others with the Charter Township of East China, and the Michigan department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

May 25, 2007